



**CABINET FOR WORKFORCE DEVELOPMENT  
DEPARTMENT FOR EMPLOYMENT SERVICES**

275 EAST MAIN STREET, 2WB

FRANKFORT, KY 40621

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WEBSITE: [www.des.ky.gov](http://www.des.ky.gov)

W. H. LILE  
SECRETARY

JAMES F. THOMPSON  
COMMISSIONER

August 6, 2003

Mr. Michael T. Hill  
Assistant Inspector General for Audit  
Office of Inspector General  
U.S. Department of Labor  
Frances Perkins Building, Room S-5512  
200 Constitution Avenue  
Washington, DC 20210

Dear Mr. Hill:

This letter is in response to the draft report issued by your office on July 8, 2003 concerning an audit conducted by Tichenor & Associates, LLP.

**Finding 1:**

**ADP/IT Central Services Costs Charged to DOL Grants Were Not Supported by CSCAPs as Required by Federal Cost Principles.**

**Response 1:**

We disagree with the assertion that the Governor's Office of Technology (GOT) ADP/IT central services costs had not been included in the Kentucky SWCAP. The Kentucky Finance and Administration Cabinet, Office of the State Controller prepares and submits the SWCAP each year for approval to the U.S. Department of Health and Human Services (HHS), Financial Management Service, Division of Cost Allocation. The cost allocation plan is negotiated between the Finance and Administration Cabinet's Office of the State Controller and the federal cognizant agency, HHS. HHS negotiates and approves the SWCAP on behalf of all federal agencies. All information requested by HHS was provided to their satisfaction as evidenced by their signed agreement (Attachment A).



EQUAL EMPLOYMENT OPPORTUNITIES MFD (DES)



The face of the duly executed State and Local Governments Cost Allocation Agreement (Attachment B) clearly lists Computer Services under Section II: BILLED COSTS. According to the Finance and Administration Cabinet's Office of the State Controller, the billing and charge back methodology for GOT was developed in conjunction with DOL several years ago and is periodically reviewed by Otto Kent, a former DOL employee who was later employed by HHS, Division of Cost Allocation. Please find a memorandum from Mr. Kent (Attachment C) describing a 1996 site visit to review the GOT charge back methodology.

We believe that given this evidence, it cannot be construed that the Computer Services billing cost are not included in Kentucky's SWCAP.

Thank you for the opportunity to respond to the Tichenor & Associates audit. Please feel free to contact me should you wish to discuss any of the above.

Sincerely,



James F. Thompson  
Commissioner

cc: Tichenor & Associates  
Stuart Weatherford



## STATE AND LOCAL GOVERNMENTS COST ALLOCATION AGREEMENT

EIN: 1610600439

September 30, 2002

ATTACHMENT  
A

STATE/LOCALITY:  
Commonwealth of Kentucky  
702 Capital Avenue, Room 484  
Frankfort, Kentucky 40601-3454

FILING REF.: The Preceding  
Agreement was dated  
September 18, 2001

### SECTION I: ALLOCATED COSTS

The central service costs listed in Exhibit A, attached, are approved on a Fixed basis and may be included as part of the costs of the State/local departments and agencies during the fiscal year ended June 30, 2002 for further allocation to Federal grants, contracts, and other agreements performed at those departments and agencies. A copy of Exhibit A may also be obtained from the Division of Cost Allocation noted on page 2 of this agreement.

### SECTION II: BILLED COSTS

In addition to Section I, which provides for services furnished but not billed, the services listed below are furnished and billed to departments and agencies:

1. Fleet Management
2. Central Printing
3. Property Management
4. Computer Services
5. Risk Management (Self-Insurance)
6. Prison Industries
7. Pension Trust (State Employees Retirement)
8. Central Stores
9. Workers Compensation

### SECTION III: CONDITIONS

The amounts approved in Section I and the billings for the services listed in Section II are subject to the following conditions:

- A. **LIMITATIONS:** (1) Charges resulting from this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. (2) Such charges represent costs incurred by the State/locality, which are legal obligations of the State/locality and are allowable under OMB Circular A-87. (3) The same costs that are treated as indirect costs are not claimed as direct costs. (4) Similar types of costs are accorded consistent accounting treatment. (5) The information provided by the State/locality that was used to establish this Agreement is not later found to be materially incomplete or inaccurate.
- B. **ACCOUNTING CHANGES:** This Agreement is based on the accounting system purported by the State/locality to be in effect during the Agreement period. Changes to the method of accounting for costs which affect the amount of reimbursement resulting from the use of this Agreement require prior approval of the authorized representative of the Cognizant Agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from an allocated cost to a billed cost. Failure to obtain such approval may result in cost disallowance.



- C. **FIXED AMOUNTS:** If fixed amounts are approved in Section I of this Agreement, they are based on an estimate of the costs for the period covered by the Agreement. When the actual costs for this period are determined, adjustments will be made to the amounts of a future year to compensate for the difference between the costs used to establish the fixed amounts and actual costs.
- D. **BILLED COSTS:** Charges for the services listed in Section II will be billed in accordance with rates established by the State/locality. These rates will be based on the estimated costs of providing the services. Adjustments for variances between billed costs and the actual allowable costs of providing the services, as defined by OMB Circular A-87, will be made in accordance with procedures agreed to between the State/locality and the Cognizant Agency.
- E. **USE BY OTHER FEDERAL AGENCIES:** This Agreement was executed in accordance with the authority in OMB Circular A-87, and should be applied to grants, contracts and other agreements covered by this Circular, subject to any limitations in Paragraph A above. The State/locality may provide copies of this Agreement to other Federal Agencies to give them early notification of the Agreement.
- F. **SPECIAL REMARKS:**
- None

**BY THE STATE/LOCALITY:**

Commonwealth of Kentucky  
EIN: 1610600439

\_\_\_\_\_  
(State/Locality)

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Name)

\_\_\_\_\_  
(Title)

\_\_\_\_\_  
(Date)

**BY THE COGNIZANT AGENCY ON BEHALF  
OF THE FEDERAL GOVERNMENT:**

Department of Health and Human Services

\_\_\_\_\_  
(Agency)

\_\_\_\_\_  
(Signature)

Philip A. Simard

\_\_\_\_\_  
(Name)

Director, Division of Cost Allocation

\_\_\_\_\_  
(Title)

September 30, 2002

\_\_\_\_\_  
(Date)

DHHS Representative: William G. Logan  
Telephone: (202) 401-2808





DEPARTMENT OF HEALTH & HUMAN SERVICES

Attachment B

Program Support Ca  
Financial Management Se  
Division of Cost Alloc

Cohen Building-Room 1  
330 Independence Avenue, S  
Washington, DC 205  
PHONE: (202)-401-2  
FAX: (202)-619-3

September 30, 2002

Mr. Stuart Weatherford  
Director, Office of the Controller  
Commonwealth of Kentucky  
702 Capitol Avenue, Room 484  
Frankfort, Kentucky 40601-3454

Dear Mr. Weatherford:

The enclosed Cost Allocation Agreement approves the Commonwealth of Kentucky Statewide Cost Allocation plan for the fiscal year ending June 30, 2002. Any variances resulting from the difference between the amounts cited as fixed in the Agreement and the actual expenditure for the fiscal year ended June 30, 2002 will be adjusted in accordance with the terms of the Cost Allocation Agreement.

The approved Central Services Costs contained in the Agreement may be considered as part of the operating costs of your various State Departments and Agencies in which activities of federally supported programs are conducted for the fiscal year beginning July 1, 2001. The indirect cost rate proposals for those departments allocating costs to Federal programs should clearly identify the adjustments made to segregate costs between direct and indirect, and to properly reflect those costs normally billed and those included in the State-Wide Cost Allocation.

Enclosed are the original and one copy of the Cost Allocation Agreement. Please sign both copies and return the original to this office at your earliest convenience, retaining the copy for your file. ~~In addition, please sign the copy of this letter of transmittal in the space provided to indicate your concurrence with the understanding cited above.~~ No citing's!

A Statewide Cost Allocation Plan, together with required supporting information, must be submitted to this office each fiscal year in which your organization allocates or bills costs under grants and contracts awarded by the Federal Government. Therefore, the Plan, based on actual costs for the fiscal year ended June 30, 2002 is due December 31, 2002.

Sincerely,

Philip A. Simard  
Director  
Division of Cost Allocation

Enclosures:



Exhibit B

USER AGENCIES	KENTUCKY STATEWIDE COST ALLOCATION FISCAL YEAR 2002															
	BENEFIT															
	(Amounts Rounded to the Nearest Dollar)															
	Records Center B11	Motorpool B12	State Risk B13	Correction Industries B14	Facilities Security B15	Central Stores B16	Pricing B17	Gov Serv Center B18	Physical Plant B20	Info Systems B21	Workforce Comp B22	TOTAL Section II	Pass-Thru Section II			
Agriculture	\$ 1,208	\$ (3,657)	\$ (3,982)	\$ 11,253	\$ 22,760	\$ -	\$ 9,999	\$ 1,691	\$ 35,352	\$ 538	\$ (31,400)	\$ 89,358	\$ (1,875)			
Local Government	\$ 997	\$ (83)	\$ (302)	\$ 3,123	\$ 7,590	\$ -	\$ 9,989	\$ 494	\$ 1,208	\$ 376	\$ (1,739)	\$ 15,907	\$ 382			
Education	\$ 54,804	\$ (912)	\$ (35,319)	\$ 10,847	\$ 148,574	\$ -	\$ 19,851	\$ 5,678	\$ 769,271	\$ 24,235	\$ (52,019)	\$ 921,809	\$ 4,768			
Kentucky Educational TV	\$ 437	\$ (774)	\$ (32,306)	\$ 297	\$ -	\$ -	\$ 160	\$ -	\$ -	\$ 165	\$ (3,622)	\$ (35,722)	\$ (774)			
Libraries	\$ 48,148	\$ (319)	\$ (1,435)	\$ 1,239	\$ 7,590	\$ -	\$ 2,660	\$ -	\$ 305,802	\$ 409	\$ (4,307)	\$ 359,897	\$ (319)			
Natural Resources	\$ 42,776	\$ (176)	\$ (24,404)	\$ 11,132	\$ 264,363	\$ -	\$ 23,005	\$ 8,261	\$ 308,289	\$ 11,084	\$ (65,762)	\$ 589,864	\$ 8,066			
Transportation	\$ 111,111	\$ (55,779)	\$ (125,023)	\$ 195,282	\$ 153,698	\$ -	\$ 49,853	\$ 94,619	\$ 718,251	\$ 115,802	\$ -	\$ 1,194,187	\$ (20,859)			
Health Services	\$ 193,737	\$ (2,236)	\$ (85,245)	\$ 19,829	\$ 125,077	\$ -	\$ 151,009	\$ 24,194	\$ 813,343	\$ 19,864	\$ (387,834)	\$ 559,558	\$ 21,957			
Families And Children	\$ 190,843	\$ (2,736)	\$ (35,189)	\$ 9,991	\$ 64,778	\$ -	\$ 107,853	\$ 16,079	\$ 463,654	\$ 390,690	\$ (314,096)	\$ 839,890	\$ 13,343			
Labor	\$ 2,497	\$ (220)	\$ (4,537)	\$ 14,279	\$ -	\$ -	\$ 2,723	\$ 2,864	\$ 10,400	\$ 4,991	\$ (27,274)	\$ 5,381	\$ 2,644			
Workforce Development	\$ 40,173	\$ (1,409)	\$ (61,294)	\$ 42,595	\$ 58,526	\$ -	\$ 23,871	\$ 6,468	\$ 263,832	\$ 98,927	\$ (136,890)	\$ 332,829	\$ 7,069			
University Of Kentucky	\$ -	\$ -	\$ (450,821)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (450,821)	\$ -			
All Others	\$ 1,189,163	\$ (21,098)	\$ (2,070,667)	\$ 590,704	\$ 739,781	\$ -	\$ 953,751	\$ 62,877	\$ 1,391,013	\$ 194,515	\$ (1,615,236)	\$ 869,919	\$ 41,778			
Total	\$ 1,573,981	\$ (89,311)	\$ (2,929,173)	\$ 614,640	\$ 1,807,069	\$ -	\$ 647,397	\$ 165,497	\$ 6,102,421	\$ 781,298	\$ (2,890,944)	\$ 5,274,478	\$ 879,167			



### **Information Systems**

The Department of Information Systems, an agency in the Finance and Administration Cabinet, is responsible for the formulation of the policies and procedures necessary for usage and for providing coordination and implementation of the data processing developmental requirements for all state agencies in an efficient, timely, and cost effective manner. These responsibilities are carried out through the seven divisions in the Department, which provide technical advice and machines to the various agencies of State Government, along with management of all data processing equipment contracts in State Government.



**KENTUCKY STATEWIDE COST ALLOCATION PLAN**  
**FISCAL YEAR 1999-00**  
**DEPARTMENT OF FINANCE**  
**Information Systems**

C33

<b>COSTS TO BE ALLOCATED</b>	<b>Allowable</b>	<b>Not Allowable</b>	<b>Total</b>
Personal Services and Benefits	35,448,332.07		35,448,332.07
Equipment and Awards	0.00	1,806,244.82	1,806,244.82
Other Costs	19,805,878.75	17,484,952.19	37,270,830.94
Financial Statement	55,252,210.82	19,271,197.01	74,523,407.83
53,968,559.07 P 259 p.259 17,460,328.03			
2,580,833.20 P 225 p.156 510,273.46 & 3,414.13			
Depreciation exper	2,558,000.00		2,558,000.00
Section I Costs (Sch 19)	364,000.43		364,000.43
Adm Overhead C1	1,759,083.14		1,759,083.14
Revenue	(59,062,126.44)		(59,062,126.44)
Expenditures			
Over/(Under) Revenues	871,167.96	19,271,197.01	20,142,364.97
p.258 * (52,831,782.44)			
p. 156 * (90,740.22) (8,139,603.78) p. 282*			

**Allocation of Costs Basis:**

Based on Department of Information Systems' rated revenues per accompanying report

	<b>Rated Revenue</b>	<b>Percentage</b>	<b>Allocation Schedule</b>
<b>User Agencies</b>	42,681,031	90.78%	790,883
<b>General Government</b>	0	0.00%	0
<b>Central Services</b>			
<b>Finance</b>			
Controller			
Accounts	963,294	2.05%	17,850
Social Security		0.00%	0
Risk Management	0	0.00%	0
Purchases	23,548	0.05%	436
Empower Kentucky	1,894,382	4.03%	35,103
Central Stores	0	0.00%	0
Printing		0.00%	0
Gov Srv Ctr	6,683	0.01%	124
Telecom		0.00%	0
Physical Plant	0	0.00%	0
Info Systems	179,989	0.38%	3,335
Other Finance	237,297	0.50%	4,397
<b>Personnel</b>	889,672	1.89%	16,486
Worker's Comp		0.00%	0
Deferred Comp.		0.00%	0
<b>Treasury</b>	34,859	0.07%	642
<b>Auditor</b>	59,036	0.13%	1,094
<b>Policy &amp; Mgt</b>	8,411	0.02%	156
<b>Ky Retire</b>	35,701	0.08%	682
<b>Total</b>	47,013,704	100.00%	871,168

A3



Information Systems  
Allocation of Costs

B20

User Agencies	Billings	Percentage	Allocation	
Leg Research	48,670	0.104%	868	
Judicial	135,438	0.288%	2,416	
Agriculture	36,881	0.078%	658	
Attny General	36,907	0.079%	658	
Election Fin	276,067	0.587%	4,924	
Gov's Office	3,262	0.007%	58	
Lt. Gov's Off	0	0.000%	0	
Military	61,421	0.131%	1,096	
Revenue	6,712,951	14.278%	119,737	
Local Govm't	21,100	0.045%	376	
Sec of State	19,022	0.040%	338	
Boards	117,234	0.249%	2,091	
Counc Higher Ed	51,377	0.109%	916	
Justice	1,341,492	2.853%	23,928	
Corrections	494,026	1.051%	8,812	
Education	1,358,716	2.890%	24,235	
KET	8,768	0.019%	156	
Libraries	22,930	0.049%	409	
NREP	621,412	1.322%	11,084	
Transportation	6,492,350	13.808%	115,802	
Commerce	20,579	0.044%	367	
Public Protection	395,767	0.842%	7,059	
Insurance	55,490	0.118%	990	
Health Services	1,114,755	2.371%	19,884	
Families And Children	18,533,713	39.422%	330,580	
Tourism	310,672	0.661%	5,641	
Labor	261,322	0.556%	4,661	
Workforce Development	3,864,365	8.220%	68,927	
UK	0	0.000%	0	
Other	264,346	0.562%	4,715	
Total	42,681,031	90.784%	761,288	Exhibit B
Central Services	4,332,673	9.216%	77,280	
Total All Agencies	47,013,704	100.000%	\$838,568	Schedule 20
	Schedule A3	Schedule A4	Total	
	790,883	47,885	838,568	



079

	Info Systems (Fin-Info Sys)	
E314	593.60 maj obj group 1	35,446,332.07
E341	1,598.60 maj obj group 3	22,899,902.97
E368	1,800.48 maj obj group 4	706.96
	maj obj group 6	1,752,052.42
E370	631.48 maj obj group 7	54,192.40
	Total All Prog	60,153,186.82

Off-budget transfers in the amount of 14,366,806.88 not included in Exp. Analysis.  
14,366,806.88

off-budget transfer	3,093,521.15
T113,T132	14,366,806.88
	17,460,328.03





## DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

Program Support Costs  
Office of Financial Management Services  
Division of ADP Review

Cohen Building-Room 1967  
110 Independence Avenue, S.W.  
Washington, DC 20201  
PHONE: (202) 401-3813  
FAX: (202) 401-3818

June 6, 1996

Kimberly G. Goodwin  
Department of Accounts  
Capitol Annex Building  
702 Capitol Avenue, Room 484  
Frankfort, Kentucky 40601-3454

Subject: Computer Center and Telecommunication Network Systems Chargeback Review

Dear Ms. Goodwin:

Per our telephone conversation please make arrangements for our On-site Cost Determination review of the Kentucky State Computer and Network systems cost allocation and chargeback methodologies. We expect to limit our on-site review work to one week or less, July 22 - 26, 1996.

The purpose of the review is to identify the cost accounting and chargeback methodologies used by grantees and contractor organizations, and evaluate their appropriateness as a basis for cost reimbursements from Federal Programs. Our primary interest is in the identification, allowability, and allocability of costs for statewide computer services, local area networks (LAN), wide area networks (WAN), and statewide telecommunication systems.

Please have the documents named in the attached list available for review on Monday June 22, 1996. To expedite the review please forward copies of your most recent computer services and network processing cost allocation plans and organization charts by June 20, 1996 to assist in our planning process.

We anticipate the need to interview network, telecommunication and data center officials responsible for accounting, billing and cost allocation methodology.

Please call me or William Logan on (202) 401-2812 if you should have any questions or you can contact me by fax at (202) 401-2820. Thank you for your cooperation.

Sincerely,

W. Otto Kent, Director  
Division of ADP Review



Attachment

cc: John West, PSC, FMS

Charles Seed, FMS, DCA

Steve Garfinkel, USDOL, OCD

Mark Regan, HHS, ACF

Richard Friedman, HHS, HCFA

Dave Temoshuk, USDA